

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the matter of:

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1998 Biennial Regulatory Review--

CC DOCKET 98-81

Review of Accounting and Cost
Allocation Requirements

REPLY COMMENTS OF THE NARUC STAFF SUBCOMMITTEE ON ACCOUNTS

The Subcommittee met the week of September 28, 1998. Therefore, the following comments are being provided after the comment period as ex parte comments.

The Subcommittee agrees with most of the tentative findings proposed by the Commission in its notice. We also believe that the time will soon come for a global review of RBOC accounting requirements. We believe that movement toward a more competitive accounting system (i.e., GAAP) is consistent with the movement towards a more competitive telecommunication environment. We believe that if such changes produce cost savings, they should be pursued consistent with the policy of reducing regulatory-imposed costs. Finally, we see merit in more closely aligning regulatory accounting with that used to prepare general purpose financial statements.

However, the proposals for the elimination of Part 32, as suggested in the Arthur Andersen White Paper and the RBOCs, are premature, and may in fact hamper the Commission's and states' ability to effectively oversee the telecommunications industry at this critical juncture in the transition to competition. Most states adopt Part 32 for state regulatory purposes.

"Uniformity" in the classifying and recording of economic events is still needed for the effective operation of Parts 36, 64 and 69. While the Commission is currently considering changes to these processes, until they are finalized, the uniformity of Part 32 remains necessary to ensure their continued effective operation. Accordingly, allowing the RBOCs the flexibility to

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account for similar economic events in different fashions at this time is premature.

The RBOCs have argued that accounting costs (and hence the USOA) are completely irrelevant to normal price setting. However, this ignores the fact that many telephone companies including RBOCs, are still under rate of return regulation; the USOA provides essential information used in setting rates. Eliminating Part 32 will limit the regulator's ability to establish rates in these cases, and the call for its demise is again premature.

The RBOCs "cost" related issues still require Commission attention. Debates continue over the appropriate level of access charges, and the reasonableness of Local Resale and Unbundled Network Element rates. Costs play a role in these debates, and granting the RBOCs the flexibility to use GAAP may hamper regulatory efforts to resolve these issues. To deal with these current issues that are critical to the development of a more competitive telecommunications environment, radically revising Part 32 is at this time premature.

The Commission is also investigating the impact of new technologies on its basic regulatory scheme (Title VII, Section 706 of TA 96.) The increasing digitalization of network traffic is blurring the line between "enhanced" (deregulated) and "basic" (regulated) services. Such fundamental changes to the characteristics of network traffic may require an entire revisiting of the information needs of regulators. To avoid a potentially duplicative effort until these issues are resolved, a radical change to Part 32 requirements is premature.

In summary, because of the current need for Part 32 information, pending Commission proceedings that relate to Part 32, and possible future changes due to technology, the call to replace Part 32 with GAAP at this time is both imprudent and premature.

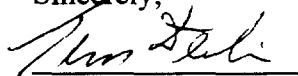
We also believe, that despite our concerns with the Arthur Andersen White Paper, it does contain several points which are relevant to investigating future Part 32 changes. The issue of "materiality" is a valid one --- if defined properly. Materiality considers whether information, if disclosed, would alter a reader's opinion of a matter. Here we must not lose sight that facts needed by a regulator to establish sound regulatory policy, may differ from facts needed by an

investor using general purpose financial statements prepared according to GAAP. This difference needs to be more closely examined, as reliance on a GAAP materiality standard may leave regulators without information necessary to discharge their duties.

Another legitimate point raised by Arthur Andersen is that the cost/benefit of an accounting system needs to be considered. We agree, but this point needs to be significantly more developed before it can be given any serious weight. We have seen no evidence in the Arthur Andersen white paper, that the benefits produced by changing to GAAP exceed the cost of the lost Part 32 information.

A more prudent course in this entire area would be for the Commission to use the suggestions made by all parties in this docket to develop criteria it believes relevant in deciding whether to amend Part 32, and request that the industry and regulators work together on recommending how to meet the changing information needs of the Commission. When more is known about the issues described above, the Commission will be in a position to act in a more informed and timely manner. This Subcommittee is prepared to assist in such an effort to assure that it proceeds in an efficient and effective manner, and meets the needs of all parties in the increasingly competitive telecommunication environment.

Sincerely,

A handwritten signature in dark ink, appearing to read "Tim Devlin", written over a horizontal line.

Timothy J. Devlin, Chairman
NARUC Staff Subcommittee on Accounts
October 19, 1998